Report

of the

Examination of

Society Insurance, A Mutual Company

Fond du Lac, Wisconsin

As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Jorge Gomez, *Commissioner*

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July 1, 2005

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC

Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, Virginia 23219

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

SOCIETY INSURANCE, A MUTUAL COMPANY
Fond du Lac, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Society Insurance, A Mutual Company (the company or Society) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1915 as the Wisconsin Brotherhood of Threshermen's Insurance Company. In 1946, the company changed its name to Threshermen's Mutual Insurance Company. On July 1, 1995, the company changed its name to Society Insurance, A Mutual Company, the name currently in use.

In 2004, the company wrote direct premium in the following states:

Wisconsin	$104,629,926	76.0%
Illinois	22,205,821	16.1
Iowa	8,625,179	6.3
Indiana	2,261,116	1.6
Total	$137,722,042	100.0%

The major products marketed by the company include worker's compensation, commercial multiple peril, commercial auto liability, auto physical damage, and other liability occurrence. The company continues to increase its presence in the other states in which it is licensed and now writes 24% of direct business outside of Wisconsin, with 16% written in Illinois. In 2002, the company discontinued its personal lines business and is currently writing only commercial lines. The worker's compensation line of business continues to be the largest line and comprised 56% of direct business in 2004. The major products are marketed through independent agents.

The following table is a summary of the net insurance premiums written by the company in 2004. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 68,624	$	$ 22,313	$ 46,311
Allied lines	30,519		7,796	22,723
Commercial multiple peril	47,392,833	473,114	13,222,520	34,643,427
Inland marine	64,090		22,924	41,166
Worker's compensation	76,880,397	2,966,926	18,943,599	60,903,724
Other liability – occurrence	3,969,881	193,937	3,181,089	982,729
Products liability – occurrence	13,037		329	12,708
Commercial auto liability	5,560,898		138,858	5,422,040
Auto physical damage	3,741,763		96,743	3,645,020
Total All Lines	$137,722,042	$3,633,977	$35,636,171	$105,719,848

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. Each board member currently receives $300 per month and $500 per meeting or special meeting attended for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael L. Wagner Fond du Lac, Wisconsin	Chairman of the Board President, Venture Insurance Company	2007
James P. Thomas Fond du Lac, Wisconsin	President and Chief Executive Officer Society Insurance, A Mutual Company	2006
John E. Ahern Fond du Lac, Wisconsin	Chairman J.F. Ahern Company	2006
Gregory C. Krohm Madison, Wisconsin	Executive Director International Association of Industrial Accident Boards and Commissions	2006
Thomas D. Baker Fond du Lac, Wisconsin	Chairman C.D. Smith Construction Company	2007
Jeffrey M. Timler Fond du Lac, Wisconsin	Certified Public Accountant	2007
Rodney A. Glaeser Fond du Lac, Wisconsin	Secretary Society Insurance, A Mutual Company	2008
Thomas E. Petri Fond du Lac, Wisconsin	U.S. Congressman for the Sixth District of Wisconsin	2008
Robert N. Promen Fond du Lac, Wisconsin	Retired Investment Broker	2008

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2004 Compensation
James P. Thomas	President	$306,100
Rodney A. Glaeser	Secretary	0
Edwin W. Storer	Treasurer	95,000

The company entered into agreements with certain officers to provide retirement benefits as follows:

A supplemental non-qualified profit-sharing plan covers a past president, Michael L. Wagner, who retired in January of 2004. The plan was adopted in 1992 and amended in 1996 in response to limitations imposed by the Internal Revenue Code and the Omnibus Budget Reconciliation Act of 1993, which placed restrictions on compensation amounts for qualified retirement plan purposes. The purpose of the amendment was to put the employee in the same position as if the above limitations did not apply. The payable related to this plan was $1,182,714, at December 31, 2004, and will be paid in two substantially equal payments on January 15, 2006, and 2007.

The company also has a supplemental pension plan covering Mr. Wagner. Adopted in 1994, it too was amended in 1996 in response to restrictions imposed by the Internal Revenue Code, for the reasons noted above. Benefits are determined based on length of service and average salary over the service period. The benefit obligation for this plan was $1,881,879 at December 31, 2004, and will be paid in two substantially equal installments on January 15, 2006, and 2007.

In addition, the company has entered into deferred compensation and non-compete agreements with certain key officers, for benefits which are payable over a period determined by individual contract. The liability under these agreements at December 31, 2004, was $1,331,263.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Robert N. Promen
James. P. Thomas
Michael L. Wagner

Audit Committee
Rodney A. Glaeser
Gregory C. Krohm
Jeffrey M. Timler

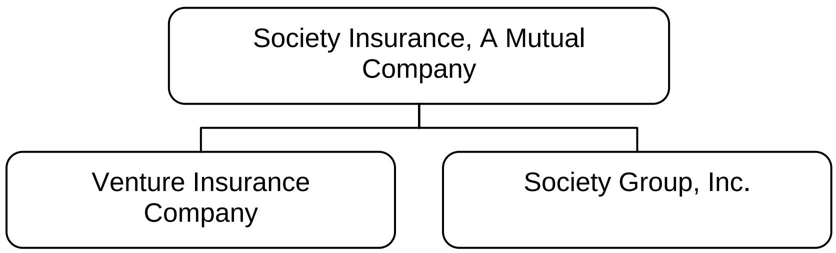
Investment Committee
John E. Ahern
Rodney Glaeser
Thomas E. Petri
Robert N. Promen
Jeffrey M. Timler

Senior Executive Compensation Committee
John E. Ahern
Thomas D.Baker
James P. Thomas
Michael L. Wagner

IV. AFFILIATED COMPANIES

Society Insurance, A Mutual Company, is the ultimate parent in a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2004



Venture Insurance Company

Venture Insurance Company (Venture) is a Wisconsin-domiciled property and casualty company writing worker's compensation coverage. The company was purchased in 1993 by Society and is licensed in Wisconsin only.

Venture was also examined as of December 31, 2004, by the Wisconsin Office of the Commissioner of Insurance. The findings of that examination are discussed in a separate report. As of December 31, 2004, the audited financial statements of Venture reported assets of $12,621,197, liabilities of $7,676,518, and capital and surplus of $4,944,678. Operations for 2004 produced a net loss of $610,696.

Society Group, Inc.

Society Group, Inc., is a Wisconsin-domiciled holding company incorporated by Society in November 1994 to accomplish the name preservation of Society Group and to own other insurance-related businesses that Society may organize or acquire through purchase or merger. As of December 31, 2004, the company reported assets of $16,643, liabilities of $999, and stockholder equity of $15,644. Operations for 2004 produced net income of $1,549.

Agreements with Affiliates

Society has the following affiliated agreements with Venture:

Administrative Services Agreement

This agreement became effective on July 25, 1995, and will remain in force until terminated by either party with 30 days' written notice. Under the terms of the agreement, Society agrees to perform such services as may be required to manage and operate Venture including, but not limited to, underwriting, marketing, loss adjusting, accounting, billing, data processing, general management, and other services as may be requested from time to time by the corporate officers. Venture shall reimburse Society monthly for all expenses incurred by Society for the performance of such services.

Income Tax Allocation Agreement

Effective as of July 25, 1995, this agreement will remain in force until terminated by either party with 30 days' written notice. Under the terms of the agreement, the companies agree to file their federal income tax returns on a consolidated basis. The consolidated federal income tax expense shall be allocated between the two companies based on separate return calculations with a current credit for net losses. Intercompany balances are to be settled within 15 days of filing the consolidated return each year.

Aggregate Excess of Loss Agreement

This agreement became effective on January 1, 1998, and is automatically renewed each succeeding January 1st, unless notification is provided by either party to the other by any December 31st of the intent not to renew. Under the terms of this agreement, the Reinsurer (Society) will be liable for 100% of the amount by which Venture's aggregate losses occurring during the term of this agreement exceed 75% of Venture's net premiums earned. Society's limit of liability will not exceed $5,000,000. The premium due to Society for the reinsurance provided under this agreement is determined by applying a rate of 9% to Venture's net premiums earned for the term of this agreement, subject to a minimum premium of $200,000 per year.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions. Mutual Reinsurance Bureau (MRB) is indicated as the reinsurer on several of the ceding contracts. MRB is an association of reinsurers; the assuming member companies severally and jointly assume their proportionate share of the liability. The association consists of the following reinsurers (each assuming a one-third share):

1. Auto-Owners Insurance Company
2. Employers Mutual Casualty Company
3. Motorists Mutual Insurance Company

Society also cedes commercial lines excess of loss coverage to multiple reinsurance companies through a broker. Compliance with the Reinsurance Intermediary Act is discussed in the section entitled "Summary of Current Examination Results."

In addition, Society assumes reinsurance through two mandatory pools and is a carrier for the Wisconsin Worker's Compensation Pool. Assumption from the National Worker's Compensation Reinsurance Pool is a requirement for writing worker's compensation business in Illinois and Indiana. The company is also required to assume business from NAMICO Reinsurance Facility in order to purchase professional liability insurance from NAMICO.

Nonaffiliated Ceding Contracts

1.	Type:	Property Per Risk Excess of Loss
	Reinsurer:	Mutual Reinsurance Bureau
	Scope:	Business written and classified by the company as fire, allied lines, commercial multiple peril (property perils only), businessowners (property perils only) and inland marine
	Retention:	$450,000 of ultimate net loss as respects any one risk, each loss occurrence
	Coverage:	$300,000 excess of $450,000 as respects any one risk, each loss occurrence and $900,000 of ultimate net loss as respects any one loss occurrence; with a limit of $900,000 of ultimate net loss as respects any and all losses arising out of one or multiple acts of terrorism or counter-terrorism during any contract year

	Premium:	1.69% of subject direct earned premium
	Contingent commission:	85% of MRB's profit calculated as follows: MRB's cumulative reinsurance premiums earned during the accounting period less MRB's cumulative incurred losses and LAE with respect to losses occurring during the accounting period less MRB's home office expenses of 15% of the cumulative reinsurance premiums earned during the accounting period
	Effective date:	January 1, 2005
	Termination:	By either party at any December 31 with 45 days' written notice, or at any time by either party giving 90 days' written notice upon the occurrence of defined special circumstances
2.	Type:	Obligatory First Surplus Agreement
	Reinsurer:	Mutual Reinsurance Bureau
	Scope:	Business written and classified by the company as fire, allied lines, commercial multiple peril (property perils only), businessowners (property perils only) and inland marine
	Retention/Limit:	Minimum net retention of $750,000; the company will cede and MRB will accept on a pro rata basis, the company's First Surplus Liability up to a maximum of 4.33 times its net retention on any one risk subject to a maximum cession of $3,250,000
	Coverage:	Two times the annual ceded earned reinsurance premium or $15,000,000, whichever is greater, as respects any one loss occurrence; or One times the annual ceded earned reinsurance premium or $7,500,000, whichever is greater, as respects any and all losses arising out of any one or multiple acts of terrorism or counter terrorism during any contract year
	Premium:	Pro rata share of subject net premium written after deduction of premiums paid for reinsurance
	Commissions:	Sliding scale commission based on the loss ratio: Minimum: 25% of net premiums earned (loss ratio 70% +) Maximum: 37.5% of net premiums earned (loss ratio < 55%)
	Effective date:	January 1, 2005
	Termination:	By either party at any December 31 with 45 days' written notice or at any time by either party giving 90 days' written notice upon the occurrence of defined special circumstances
3.	Type:	Property Automatic Facultative
	Reinsurer:	Everest Reinsurance Company
	Scope:	Commercial property business

	Retention	$4,000,000 per risk
	Coverage:	$4,000,000 excess of $4,000,000
	Premium:	The respective pro-rata percentage of each risk's original gross premium (less ceding allowance)
	Commission:	A ceding commission of 30%
	Contingent commission:	Net written premiums ceded must be at least $250,000 in any one year for allowance of contingent commission. The sliding scale allowance is calculated on profit, net of 12% of reinsurer's premium earned, for each calendar year and based on the loss ratio as follows: Minimum: 25% (loss ratio >35% or <50%) Maximum: 30% (loss ratio less than or equal to 35%)
	Effective date:	April 1, 2004
	Termination:	By either party with 90 days' written notice
4.	Type:	Catastrophe Excess of Loss
	Reinsurer:	Mutual Reinsurance Bureau
	Scope:	Business written and classified by the company as fire, allied lines, commercial multiple peril (property perils only), businessowners (property perils only), inland marine, and auto physical damage (excluding collision)
	Retention:	Section One: $2,000,000 each loss occurrence Section Two: $8,750,000 each loss occurrence
	Coverage:	Section One: $6,750,000 excess of $2,000,000 not to exceed 100% of $13,500,000 with respect to all occurrences each calendar year Section Two: $8,750,000 excess of $8,750,000, not to exceed 100% of $17,500,000 with respect to all occurrences during the year
	Premium:	Section One: 2.63% of subject net earned premium (minimum: $410,000) Section Two: 0.53% of subject net earned premium (minimum: $103,000)
	Effective date:	January 1, 2005
	Termination:	By either party at any December 31 with 45 days' written notice, or at any time by either party giving 90 days' written notice upon the occurrence of defined special circumstances
5.	Type:	Certificate of Property Facultative
	Reinsurer:	Various reinsurers through Wellington Underwriting Inc. as reinsurance intermediary

Scope:	Separate contract for each risk accepted
Retention:	$8,000,000 minimum
Coverage:	$8,000,000 excess of $8,000,000
Premium:	As defined on individual contract
Effective date:	As defined on individual contract
Termination:	As defined on individual contract

6. Type: Casualty Excess of Loss

Reinsurer:	Mutual Reinsurance Bureau
Scope:	All general liability business written by the company
Retention:	Section One: $500,000 Section Two: $1,000,000
Coverage:	Section One: $500,000 excess of $500,000 as respects any one occurrence or $1,500,000 as respects acts of terrorism or counter-terrorism Section Two: $2,000,000 excess $1,000,000
Premium:	Section One: 2.00% of subject net earned premium Section Two: 0.65% of subject net earned premium
Contingent commission:	Section One: 100% of MRB's profit calculated as follows: MRB's cumulative reinsurance premiums earned during the accounting period less MRB's cumulative incurred losses and LAE with respect to losses occurring during the accounting period less MRB's home office expenses of 10% of the cumulative reinsurance premiums earned during the accounting period, plus any deficit/carryforward from the prior accounting period
Effective date:	January 1, 2005
Termination:	By either party at any December 31 with 45 days' written notice, or at anytime by either party giving 90 days' written notice upon the happening of defined special circumstances

7. Type: Casualty Excess of Loss

Reinsurer:	Liberty Mutual Insurance Company 50% QBE Reinsurance Company 50%
Scope:	All general liability business written by the company including worker's compensation but excluding umbrella
Retention:	$3,000,000
Coverage:	$2,000,000 excess of $3,000,000

	Premium:	Annual deposit premium of $300,000 and adjusted on expiration at a rate of .3256% with a minimum premium of $240,000
	Effective date:	January 1, 2005
	Termination:	January 1, 2006
8.	Type:	Worker's Compensation Catastrophe Excess of Loss
	Reinsurer:	Employers Mutual Casualty Company 5.00% Lloyd's Syndicate 1400 37.50 BRIT Insurance Limited 12.50 Lloyd's Syndicate 1096 45.00 100.00%
	Scope:	Worker's compensation
	Retention:	$5,000,000
	Coverage:	$20,000,000 excess of $5,000,000 each loss occurrence
	Premium:	$355,000 minimum adjusted following expiration at a rate of 0.575% on subject gross net earned premium income
	Effective date:	March 1, 2005
	Termination:	March 1, 2006
9.	Type:	Commercial Umbrella Quota Share
	Reinsurer:	American Reinsurance Company
	Scope:	Commercial Umbrella business
	Retention:	10% of the first $1,000,000 per occurrence
	Coverage:	90% of the net loss applicable to the first $1,000,000; 100% of the net loss applicable to the next $9,000,000
	Premium:	90% of the gross written premium charged by the company for policy limits up to $1,00,000 and 100% of the gross written premium charged by the company for the next $9,000,000 in policy limits in excess of the first $1,000,000
	Commission:	30% of premium ceded
	Contingent Commission:	25% of the net profits accruing to the reinsurer with respect to the first $5,000,000 of insurance limits
	Effective date:	January 1, 2000
	Termination:	By either party with 90 days' written notice
10.	Type:	Boiler and Machinery Agreement
	Reinsurer:	Factory Mutual Insurance Company

	Scope:	Equipment breakdown coverage
	Retention:	None
	Coverage:	Maximum of $25,000,000 on any one risk
	Premium:	100% of written premium
	Commission:	Sliding scale commission Minimum: 25% (loss ratio 45%+) Maximum 45% (loss ratio 25% -)
	Effective date:	January 1, 2004
	Termination:	By either party as of any calendar quarter-end with 90 days' written notice

Affiliated Assuming Contracts

1.	Type:	Aggregate Excess of Loss
	Reinsured:	Venture Insurance Company
	Scope:	All retained business written by Venture
	Retention/Limit:	The reinsurer (Society) will be liable for 100% of the amount by which the reinsured's aggregate losses occurring during the term of this agreement exceed 75% of the reinsured's net premium earned. The reinsurer's limit of liability will not exceed $5,000,000.
	Premium:	9% of net premium earned, subject to a minimum of $200,000
	Effective date:	January 1, 2005
	Termination:	By either party, provided notification of the intent not to renew is received by December 31st of the year prior to renewal

Nonaffiliated Assuming Contracts

1.	Type:	Catastrophe Pool Reinsurance Agreement
	Reinsured:	Mutual Reinsurance Bureau
	Scope:	Aggregate and catastrophe excess contracts or similar covers
	Retention and Limit:	2.5% of MRB's net retained liability (MRB's net retained liability pertaining to one Original Reassured will not exceed $7,500,000 any one occurrence or $7,500,000 in the aggregate on any one agreement year)
	Premium:	Proportionate share of all premiums on each Original Agreement

	Commissions:	7.5% on original ceded premium
	Contingent commission:	15% of the profit earned under the agreement
	Effective date:	January 1, 2004
	Termination:	At December 31st of any year by either party with 90 days' written notice
2.	Type:	Regional Reciprocal Catastrophe Pool Reinsurance Agreement
	Reinsured:	Mutual Reinsurance Bureau
	Scope:	Aggregate and catastrophe excess contracts or similar covers
	Retention and limit:	4% of MRB's net liability (MRB's net liability on any one Original Agreement will not exceed a maximum of $20,000,000 any one occurrence or $20,000,000 in the aggregate for any one agreement year)
	Premium:	Proportionate share of all premiums received on each Original Agreement
	Commissions:	MRB will receive a flat management fee of 10% which will be applied to all premium ceded to the pool
	Effective date:	January 1, 2004
	Termination:	At December 31st of any year by either party with 120 days' written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Society Insurance, A Mutual Company
Assets
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$137,171,617	$ 0	$137,171,617
Stocks:			
Common stocks	23,958,206	0	23,958,206
Real estate:			
Occupied by the company	3,725,387	0	3,725,387
Cash	12,496,300	0	12,496,300
Short-term investments	440,809		440,809
Investment income due and accrued	1,420,396	0	1,420,396
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,376,593	678,128	6,698,465
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	34,455,963	0	34,455,963
Reinsurance:			
Amounts recoverable from reinsurers	785,157	0	785,157
Funds held by or deposited with reinsured companies	334,679	0	334,679
Current federal and foreign income tax recoverable and interest thereon	1,392,000	0	1,392,000
Net deferred tax asset	7,861,500	4,861,500	3,000,000
Electronic data processing equipment and software	2,067,478	1,711,544	355,934
Furniture and equipment, including health care delivery assets	723,384	723,384	0
Write-ins for other than invested assets:			
Prepaid expenses	1,834,521	1,834,521	0
Intangible Asset	403,428	403,428	0
Advance to Agents	50,000	50,000	0
State Income Tax Receivable	33,989	0	33,989
Uncollected WC Pool Premiums	3,171,680	0	3,171,680
Due for Special Services	2,558	0	2,558
Cash Surrender Value-Life Insurance	579,576	0	579,576
Total Assets	$240,285,221	$10,262,505	$230,022,716

Society Insurance, A Mutual Company
Liabilities, Surplus, and Other Funds
As of December 31, 2004

Losses		$ 77,256,598
Loss adjustment expenses		28,101,091
Commissions payable, contingent commissions, and other similar charges		1,408,390
Other expenses (excluding taxes, licenses, and fees)		2,923,560
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,076,307
Unearned premiums		47,909,564
Advance premium		504,483
Dividends declared and unpaid:		
Policyholders		3,105,379
Ceded reinsurance premiums payable (net of ceding commissions)		5,473,176
Amounts withheld or retained by company for account of others		192,727
Payable to parent, subsidiaries, and affiliates		150,001
Payable for securities		1,001,926
Write-ins for liabilities:		
LAE- WC Pool		5,259,362
WC premiums due state		2,740,304
Payable for intangible asset		627,556
Total Liabilities		177,730,424
Unassigned funds (surplus)	$52,292,291	
Surplus as Regards Policyholders		52,292,291
Total Liabilities and Surplus		$230,022,715

Society Insurance, A Mutual Company
Summary of Operations
For the Year 2004

Underwriting Income		
Premiums earned		$107,846,296
Deductions:		
Losses incurred	$66,287,328	
Loss expenses incurred	21,975,014	
Other underwriting expenses incurred	26,053,493	
Total underwriting deductions		114,315,835
Net underwriting gain or (loss)		(6,469,539)
Investment Income		
Net investment income earned	4,941,967	
Net realized capital gains or (losses)	3,764,679	
Net investment gain or (loss)		8,706,646
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(287,615)	
Finance and service charges not included in premiums	286,075	
Write-ins for miscellaneous income:		
Sale of equipment	(4,039)	
Life iInsurance expense-net	30,798	
Uncollectible reinsurance	3,627	
Income from special services	1,030,348	
Total other income		1,059,194
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		3,296,301
Dividends to policyholders		3,895,550
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(599,249)
Federal and foreign income taxes incurred		(1,627,091)
Net Income		$ 1,027,842

Society Insurance, A Mutual Company
Cash Flow
For the Year 2004

Premiums collected net of reinsurance			$108,448,374
Net investment income			4,473,750
Miscellaneous income			1,059,194
Total			113,981,318
Benefit and loss related payments		$ 40,188,819	
Commissions, expenses paid, and aggregate write-ins for deductions		38,223,046	
Dividends paid to policyholders		4,557,844	
Federal and foreign income taxes paid (recovered)		129,731	
Total deductions			83,099,440
Net cash from operations			30,881,878
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 6,670,602		
Stocks	33,086,550		
Total investment proceeds		39,757,152	
Cost of investments acquired (long-term only):			
Bonds	115,708,979		
Stocks	20,343,306		
Real estate	422,747		
Total investments acquired		136,475,032	
Net cash from investments			(96,717,880)
Other cash provided (applied)		2,577,684	
Net cash from financing and miscellaneous sources			2,577,684
Reconciliation			
Net change in cash and short-term investments			(63,258,318)
Cash and short-term investments, December 31, 2003			76,195,427
Cash and short-term investments, December 31, 2004			$ 12,937,109

Society Insurance, A Mutual Company
Compulsory and Security Surplus Calculation
December 31, 2004

Assets		$230,022,716
Less security surplus of insurance subsidiaries		2,800,000
Less liabilities		177,730,424
Adjusted surplus		49,492,292
Annual premium:		
Lines other than accident and health	$101,824,298	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		20,364,859
Compulsory surplus excess (or deficit)		$ 29,127,433
Adjusted surplus (from above)		$ 49,492,292
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		28,103,505
Security surplus excess (or deficit)		$ 21,388,787

Society Insurance, A Mutual Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2004	**2003**	**2002**	**2001**	**2000**
Surplus, beginning of year	$56,267,522	$50,856,907	$50,795,882	$50,513,929	$52,066,024
Net income	1,027,842	2,213,631	(5,862,038)	1,959,249	5,448,790
Net unrealized capital gains or (losses)	(3,336,799)	4,305,508	6,418,853	(4,663,839)	(8,792,443)
Change in net deferred income tax	(694,000)	573,800	733,846	1,961,572	0
Change in non-admitted assets	(972,274)	(1,682,324)	(1,229,636)	(2,322,638)	(141,647)
Cumulative effect of changes in accounting principles		0	0	3,347,609	0
Change in excess of statutory reserves over statement reserves					1,933,205
Surplus, end of year	$52,292,291	$56,267,522	$50,856,907	$50,795,882	$50,513,929

Society Insurance, A Mutual Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2004

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2004**	**2003**	**2002**	**2001**	**2000**
#1	Gross Premium to Surplus	270%	239%	215%	189%	148%
#2	Net Premium to Surplus	202	182	166	154	121
#3	Change in Net Writings	3	21	8	28	14
#4	Surplus Aid to Surplus	5	4	3	2	3
#5	Two-Year Overall Operating Ratio	100*	92	92	93	94
#6	Investment Yield	3.1*	2.4*	4.2*	4.9	4.4*
#7	Change in Surplus	(8)	13	2	3	(1)
#8	Liabilities to Liquid Assets	84	78	76	76	72
#9	Agents' Balances to Surplus	13	13	14	11	11
#10	One-Year Reserve Development to Surplus	28*	10	7	(3)	(6)
#11	Two-Year Reserve Development to Surplus	28*	11	(1)	(7)	(8)
#12	Estimated Current Reserve Deficiency to Surplus	(23)	(8)	4	12	6

Ratio No. 5 measures the company's profitability over the previous two-year period, and is based on the combined ratio for the period less the investment income ratio. Values equal to or greater than 100% are considered unusual. The 2004 ratio of 100% was principally due to the increase in the loss and loss adjusting expense ratio from 2003 to 2004, as the company modified reserving practices and increased reserves for losses and LAE by approximately $17 million for 2003 and prior years in 2004.

Ratio No. 6, Investment Yield, measures the profitability and general quality of the company's investment portfolio over the previous year. The company had unusual IRIS ratios for investment yields for the years 2000 and 2002 through 2004. Yields under 4.5% are considered unusual. From 2000 to 2003, the company increased its stock and cash position, resulting in lower investment yields. During 2004, the company changed both its investment policy and investment advisors and currently holds approximately 77% of invested assets in bonds. Although this realignment of the investment portfolio improved the company's investment yield, the investment return is still below the threshold for unusual IRIS results.

Ratio Nos. 10 and 11, measure the company's one-year reserve development to prior year surplus and two-year reserve development to the second prior year surplus, respectively. Unusual values are equal to or greater than 20%. The 2004 values of 28% for each ratio are the result of the company's increasing reserves in 2004 as noted above.

Growth of Society Insurance, A Mutual Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2004	$230,022,716	$177,730,424	$52,292,291	$ 1,027,842
2003	198,400,267	142,132,745	56,267,522	2,213,631
2002	162,274,945	111,418,038	50,856,907	(5,862,038)
2001	148,654,228	97,858,346	50,795,882	1,959,249
2000	130,360,285	79,846,356	50,513,929	5,448,790
1999	133,320,426	81,254,402	52,066,024	797,646

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2004	$141,356,019	$105,719,848	$107,846,296	81.8%	24.6%	106.4%
2003	134,592,530	102,252,278	92,836,678	67.8	26.4	94.2
2002	109,398,273	84,607,777	80,109,146	62.9	26.3	89.2
2001	96,110,394	78,393,570	71,541,675	68.3	26.2	94.5
2000	74,690,983	61,069,210	57,711,742	64.6	26.0	90.6
1999	64,659,438	53,666,432	52,218,917	70.2	23.7	93.9

The company has experienced substantial growth in premium in the five-year period under examination, with gross written premium increasing 118%. Although admitted assets increased 72%, liabilities increased 118% in the same period, and surplus has remained relatively constant. There was an underwriting gain in all years except for 2004 when the increase to loss and loss adjustment expense reserves resulted in an underwriting loss of $6.5 million and negated the $4 million increase to surplus seen in 2003. The company earned net income in all years except for 2002, which was due to substantial realized capital losses that year. Due to its position within the worker’s compensation market in Wisconsin, the effect of policyholder dividends has been significant during the period under examination. From 2000 to 2004, the company paid $26,350,916 in policyholder dividends, all on the worker’s compensation line of business. The payment of policyholder dividends is a competitive necessity in the Wisconsin worker’s compensation market. If, strictly for analytical purposes, one were to regard policyholder dividends as a component of premium pricing, then the resulting combined ratios for the period covered in the foregoing table would range from a low of 103.7% in 1999 to a high of 110.1% in 2004.

The loss and loss adjustment expense ratio of 81.8% in 2004 was the highest of the five year period. This was due to the increase in reserves noted above and the company’s largest line of business, worker’s compensation, having a loss ratio increase of 13 percentage points in excess of the prior year, with a resulting ratio of 70%.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2004, is accepted.

Examination Reclassifications

	Debit	Credit
Premiums receivable	$ 3,161,917	$
Ceded reinsurance premiums payable (net of ceding commissions)	9,763	
Write-in assets–uncollected WC pool premium		3,171,680
Write-In Liability–LAE WC Pool	5,259,362	
Loss adjustment expenses		5,259,362
Write-in liability WC Pool premiums due state	2,740,304	
Ceded reinsurance premiums payable		2,740,304
Total Reclassifications	$11,171,346	$11,171,346

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Holding Company Filings—It is recommended that the company file copies of all material affiliated agreements with this office for approval, prior to the effective date of the transaction, in accordance with s. 617.21, Wis. Stat.

   Action—Compliance

2. Annual Statement—It is recommended that the company report all revenues and expenses under its affiliated management services agreement in column 8 of Schedule Y – Part 2, in accordance with the Annual Statement Instructions – Property and Casualty.

   Action—Compliance

3. Invested Assets—It is recommended that the company file annual updates with the SVO for its AQS common stock, as required by the NAIC Purposes and Procedures Manual.

   Action—Compliance

4. Disaster Recovery Plan—It is recommended that the company submit a copy of its new Disaster Recovery Plan as soon as it becomes available.

   Action—Compliance

5. Premium Accounting—It is recommended that the company follow the guidelines set forth in the NAIC Annual Statement Instructions – Property and Casualty and the NAIC Accounting Practices and Procedures Manual. Specifically, it is recommended that:

   - The company only report cash received for a policy in advance of the policy effective date as “Premiums Paid in Advance,” premiums billed in advance of the policy effective date should neither be recognized as a receivable nor as a payable.

   - The company report all premiums to be paid (and billed) in future installments as “Premiums, Agents’ Balances Booked but Deferred and Not Yet Due.”

   Action—Compliance

Summary of Current Examination Results

Internal Control

The examiners reviewed internal controls over the company's computer processing systems. One of the areas of review was control over access to computer systems. A review of the company's password controls revealed the company did not force password changes for access to its financially significant applications. The NAIC's Financial Condition Examiners Handbook specifies that companies should force password changes at least quarterly to reduce the likelihood of passwords being inappropriately used by others. It is recommended that the company force password changes, on at least a quarterly basis, for all financially significant applications utilized by the company.

It was also noted that although the company has procedures to limit access to computer resources based on security codes built into the User ID of employees, this process is applied only at the time of hire and when employees are assigned new responsibilities. There is no formalized procedure to periodically review access rights to verify rights remain commensurate to users' needs and to detect and remove obsolete IDs. It is recommended that the company institute a formalized procedure to review access rights on a scheduled periodic basis.

Reinsurance

In the review of reinsurance contracts, it was determined that the company did not have a valid contract with its reinsurance intermediary that meets the requirements of the Reinsurance Intermediary Model Act as defined in ss. Ins 40.03 and 47.04, Wis. Adm. Code. It is recommended that the company secure a contract with each reinsurance intermediary with whom it does business that meets the requirements of ss. Ins 40.03 and 47.04, Wis. Adm. Code. The company came into compliance with these requirements prior to completion of the examination.

Remittances and Items Not Allocated

During the review of cash receipts it was noted that checks received with applications for new business are held at the company until underwriting approves the application rather than being deposited. It is recommended that the company establish procedures to promptly deposit all cash receipts and record a liability for receipts that the insurer cannot identify for a specific purpose in accordance with the NAIC's Annual Statement Instructions-Property and Casualty.

Loss Adjusting Expenses **$33,360,453**

The above balance represents an increase of $5,259,362 from the balance reported by the company as of December 31, 2004, due to a reclassification which is reflected in Section VI of this report under the heading "Examination Reclassifications." During the review of aggregate write-ins for liabilities, it was noted the company is currently reporting loss adjusting expenses for the Wisconsin worker's compensation pool as a write-in liability. According to the NAIC's Accounting Practices and Procedures Manual SSAP No. 63, a reporting entity that is a member of a pool shall record its participation in the pool consistent with any other reinsurance arrangement. It was also determined that the Wisconsin worker's compensation pool loss adjusting expenses were not included in Schedule P of the annual statement.

It is recommended that the company report loss adjusting expenses associated with pool business in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 63 and also include loss adjusting expenses related to pool business on Schedule P of the annual statement.

Ceded Reinsurance Premiums Payable **$8,203,717**

As a result of the examination, the company's reported balance for ceded reinsurance premiums payable at December 31, 2004, was increased by $2,730,541 to the above balance due to the two reclassifications noted in Section VI of this report under the heading "Examination Reclassifications." The examination determined the company is reporting ceded premiums payable to the Wisconsin worker's compensation pool as a write-in liability. Ceding commissions were included in worker's compensation pool premiums receivable as an asset and are discussed later in this examination report in the section captioned, "Premiums Receivable." According to the NAIC's Accounting Practices and Procedures Manual SSAP No. 63, if the entity is a direct writer of business, premiums and losses ceded to a pool shall be recorded in the same manner as any other reinsurance arrangement. Ceded reinsurance premiums payable are reported net of ceding commissions.

It is recommended that the company report premiums and losses ceded to pools in the same manner as any other reinsurance arrangement in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 63.

Premium Receivable **$9,860,382**

The above balance reflects an increase from the company's reported balance of $6,698,465 at December 31, 2004. The examination determined uncollected Wisconsin worker's compensation pool premiums were reported as a write-in asset and included ceding commissions receivable. A reclassification of $3,171,680 has been noted in Section VI of this report under the heading "Examination Reclassifications." Of this balance, $3,161,917 was debited to Premiums Receivable and $9,763 was debited to Ceded Reinsurance Premiums Payable. The NAIC's Accounting Practices and Procedures Manual SSAP No. 63 instructs that if the entity is a direct writer of business, pool premiums shall be recorded in the same manner as any other business which is directly written by the company.

It is recommended that the company report uncollected pool premium in the same manner as any other business which is directly written by the company, in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 63 and ceding commissions be reflected in ceded reinsurance premiums payable.

Aggregate Write-Ins for Other Than Invested Assets **$616,123**

The above balance was reduced from $3,787,803 as the result of reclassifications previously described under the heading "Premium Receivable."

Aggregate Write-Ins for Liabilities **$627,556**

As a result of the examination, the above balance was reduced from $8,627,222 due to two reclassifications previously described under the headings "Loss Adjustment Expenses" and "Ceded Reinsurance Premium Payable."

Management and Control

It was noted in the review of the board and committee minutes that no separate minutes were maintained for committee meetings, with the exception of investment and audit committee meeting minutes for 2004. Committee members were appointed in all years under examination for the investment committee, the senior executive compensation committee, and the executive committee. An audit committee was not appointed prior to 2004. Pursuant to s. 181.1601, Wis. Stat., a corporation shall keep as permanent records minutes of all meetings of its members and board, a record of all actions taken by the members or directors without a meeting, and a record of all actions taken by committees of the board. It is recommended that minutes for all meetings of committees appointed by the board be maintained and included with the minutes of the board of directors' meetings and committee reports and recommendations that are approved by the board of directors, pursuant to s. 181.1601, Wis. Stat.

It was also noted that board minutes did not reflect whether board members abstained from voting on transactions in which they had a material interest, principally on transactions relating to officer compensation. It is recommended that directors with a conflict of interest properly abstain from voting on matters affecting their interest and that the board minutes clearly indicate it, pursuant to s. 611.60 (2), Wis. Stat.

Subsequent Events

On October 17, 2005, Society entered into a Plan of Merger with Venture Insurance Company. Under the agreement, Venture Insurance Company will convert from a Wisconsin stock insurance corporation to a Wisconsin mutual insurance corporation and simultaneously merge with and into Society, with the latter corporation surviving, effective at 12:01 a.m. on January 1, 2006. By virtue of the merger, Society will assume all Venture assets and liabilities, including all rights and liabilities under Venture policies currently in force and expired. The conversion of Venture from a stock into a mutual company is necessary to meet the requirements of Wisconsin law.

On October 25, 2005, the Office of the Commissioner of Insurance approved the plan of merger, including the conversion of Venture into a Wisconsin mutual insurance corporation, pursuant to ss. 611.73 and 611.75, Wis. Stat.

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VIII. CONCLUSION

Society Insurance, A Mutual Company, has been in business since 1915, when it was organized as the Wisconsin Brotherhood of Threshermen's Insurance Company. The company currently writes commercial lines of business, primarily worker's compensation, in four states. The company discontinued its personal lines business in 2002. During the period under examination, gross premium written has increased 118% and assets have increased 72%. Although there has been net income and underwriting gains posted in four of the five years of the examination period, surplus remains at the 1999 level, mainly due to the decrease between 2003 and 2004 as a result of the company strengthening reserves by $17 million. The payment of policyholder dividends has also had a significant effect on earnings as the company paid over $26 million in dividends during the period under examination in order to remain competitive in its main line of business.

The examination determined compliance with all five of the prior examination recommendations. The current examination resulted in nine recommendations which are summarized in the "Summary of Comments and Recommendations" section of this report. It was noted that the company complied with the recommendation regarding securing a reinsurance intermediary contract with their reinsurance broker prior to completion of the examination.

Society entered into a Plan of Merger with Venture Insurance Company, whereby Venture will convert from a Wisconsin stock insurance corporation to a Wisconsin mutual insurance corporation and simultaneously merge with and into Society, with the latter corporation surviving, effective at 12:01 a.m. on January 1, 2006.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Internal Control—It is recommended that the company force password changes, on at least a quarterly basis, for all financially significant applications utilized by the company.

2. Page 26 - Internal Control—It is recommended that the company institute a formalized procedure to review access rights on a scheduled periodic basis.

3. Page 26 - Reinsurance—It is recommended that the company secure a contract with each reinsurance intermediary with whom it does business that meets the requirements of ss. Ins 40.03 and 47.04, Wis. Adm. Code.

4. Page 26 - Remittances and Items Not Allocated—It is recommended that the company establish procedures to promptly deposit all cash receipts and record a liability for receipts that the insurer cannot identify for a specific purpose in accordance with the NAIC's Annual Statement Instructions-Property and Casualty.

5. Page 27 - Loss Adjusting Expenses—It is recommended that the company report loss adjusting expenses associated with pool business in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 63 and also include loss adjusting expenses related to pool business on Schedule P of the annual statement.

6. Page 28 - Ceded Reinsurance Premiums Payable—It is recommended that the company report premiums and losses ceded to pools in the same manner as any other reinsurance arrangement in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 63.

7. Page 28 - Premium Receivable—It is recommended that the company report uncollected pool premium in the same manner as any other business which is directly written by the company, in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP No. 63 and ceding commissions be reflected in ceded reinsurance premiums payable.

8. Page 29 - Management and Control—It is recommended that minutes for all meetings of committees appointed by the board be maintained and included with the minutes of the board of directors' meetings and committee reports and recommendations that are approved by the board of directors, pursuant to s. 181.1601, Wis. Stat.

9. Page 29 - Management and Control—It is recommended that directors with a conflict of interest properly abstain from voting on matters affecting their interest and that the board minutes clearly indicate it, pursuant to s. 611.60 (2), Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Angela Graff	Insurance Financial Examiner
Glen Navis	Insurance Financial Examiner
Sheur Yang	Insurance Financial Examiner
Tim VandeHey	EDP Specialist
Jerry DeArmond	Policy and Claim Reserve Specialist

Respectfully submitted,

Jean Suchomel
Examiner-in-Charge